CBI ORIGINAL

SDMS DocID 2184689

UNITED STATES RADIUM CORPORATION

Annual Report

1978

UNITED STATES RADIUM CORPORATION

Directors	Principal Occupation or Employment
BRIAN P. BURNS	Attorney and member of the law firm of Burns & Whitehead
HARRY J. DABAGIAN	President and Chief Operating Officer
JOSEPH G. KOSTRZEWA	Executive Vice President and Treasurer, Traverse Corporation
RALPH T. McELVENNY, JR.	Chairman of the Board and Chief Exeutive Officer of the Company; Chairman of the Board, Titan Wells, Inc.

Officers

RALPH T. McELVENNY, JR.	Chairman of the Board and Chief Executive Officer
HARRY J. DABAGIAN	President and Chief Operating Officer
FREDERICK D. SMITH	Executive Vice President, Treasurer and Secretary
WILLIAM C. KALTNECKER	Controller and Assistant Treasurer
WILLIAM E. CRIQUI	Assistant Treasurer
MARY O. COLLINSON	Assistant Secretary

Transfer Agent

MANUFACTURERS HANOVER TRUST CO., NEW YORK, N.Y.

Registrar

CHEMICAL BANK, NEW YORK, N.Y.

Auditors

PEAT, MARWICK, MITCHELL & CO., NEWARK, N.J.

Corporate Headquarters

170 East Hanover Avenue, Morristown, N.J. 07960

Equal Employment Opportunity Policy

United States Radium Corporation is an equal opportunity employer, and its policy is not to discriminate against any employee or applicant for employment because of race, color, religion, sex or national origin.

Morristown, New Jersey
April 25, 1979

TO OUR SHAREHOLDERS:

We regret to inform you that United States Radium Corporation lost $780,000 during the year ended December 31, 1978.

Losses from operations were curtailed during the fourth quarter. However, charges for underutilization of capacity and a reserve for health physics expenses related to activities licensed by the Nuclear Regulatory Commission resulted in an overall loss totaling $61,607 for the quarter.

OVERVIEW OF RECENT YEARS

United States Radium Corporation has sustained severe net losses for five consecutive years. As a result, the market value of the Company's common stock, publicly traded since 1917, declined significantly.

The net losses weakened the Company's financial and general business position and made it difficult or virtually impossible for the Company to raise badly needed new capital.

Management's attempts to diversify by acquisition were also unsuccessful. The Medical Products Division was sold at a loss to our shareholders of approximately $992,000, as reported as of December 31, 1977.

New product development has also been generally unsuccessful. As a result, the Company continued to be completely dependent on sales of its traditional products to the same deteriorating markets from which it had attempted to diversify.

A further unhappy consequence of United States Radium's disappointing performance has been its inability to contribute to the economic health and stability of localities in which the Company operates. Regrettably, the size of the total payroll and number of persons employed has trended downward steadily in recent years. This adjustment has been all the more harsh because excessive spending by the federal government in Washington has caused record inflation, high manufacturing costs and a weakened dollar. Among those disadvantaged by these factors were the American color television makers on whom the Company has placed heavy reliance.

NEW MANAGEMENT

During the third quarter of 1978, the Board of Directors was reduced from eleven to five. Because of our continued financial problems, top management was restructured. Ralph T. McElvenny, Jr., Chairman of Titan Wells, Inc., largest shareholder of the Company, was elected Chairman and Chief Executive Officer of United States Radium Corporation. Brian P. Burns, a San Francisco attorney and a member of the Board of Directors, was named Chairman of the Executive Committee. Harry J. Dabagian was named President and Chief Operating Officer, and Frederick D. Smith, formerly Vice President, was appointed Executive Vice President. As of February, 1979 the Board of Directors of the Company has four members.

Your new management, well aware of the Company's precarious financial position and its responsibility to shareholders, immediately undertook extensive reviews of each division and major product line of United States Radium. Detailed analyses were focused on marketing, pension fund management, technology, financial controls and other critical problems. In keeping with the determination of new management to streamline operations, the well-intentioned but unsuccessful aircraft instrumentation development program was disposed of.

In 1978, management was advised by The Wyatt Company, the Company's independent actuary, that the computed value of the Company's liability for vested pension benefits exceeded the assets of our pension funds by $487,000 as of January 1, 1978. This liability increased by $265,000 above that computed for the prior year. In response, management engaged a new pension trustee and requested the trustee to manage the funds with greater emphasis upon current yield. Management believes that, as a result of this initiative, the Company's liability for unfunded pension costs may be substantially reduced.

CURRENT AND FUTURE OPERATIONS

After careful evaluation of steps necessary to rebuild the Company, your new management concluded that a significant reorientation of corporate objectives was essential.

Presently, United States Radium sells its products primarily to the color television, automotive, watch and aerospace industries. These industries are growing and there is a generally healthy demand for our products. However, we are subject to intense competition and many of our current operations show an unacceptably low profit.

To improve the Company's long range position, management intends to redeploy assets into sectors offering greater potential. To attain this objective, we intend to prune and divest certain operations and strenghten others. Management is also considering possible joint ventures with other corporate partners which could enhance marketing penetration and profit.

Under the leadership of Harry J. Dabagian, our President and Chief Operating Officer, the Chemical Products Division has substantially reduced excessive inventories built up because of earlier over optimistic sales projections and technical problems. Despite problems which continue in this Division, your management has authorized substantial new capital expenditures aimed at expanding capacity to produce certain types of new phosphors and increasing the Division's general manufacturing efficiency.

The Chemical Products Division now relies mostly on overseas marketing for opportunities to increase sales. Management believes that the possibility of additional volume from overseas customers requires additional expenditures to increase the Division's capacity and efficiency. Management is well aware of the potential dangers of committing additional capital funds to this Division because by nature it is capital intensive. We are, therefore, proceeding cautiously and attempting to assure that additional volume, if any, will be profitable.

PURCHASE OF CERTAIN ASSETS FROM TITAN WELLS, INC.

Management believes that the natural resource industry offers a more favorable future than most sectors in which the Company is currently involved. We have explored various opportunities to enter the natural resource field and, after detailed consideration, the Board of Directors unanimously approved purchase of certain interests in income-producing oil and gas properties and exploration acreage from Titan Wells, Inc. The Board of Directors believes that the purchase of these properties in the near future would be a modest but sensible diversification and would constitute a foundation for possible further asset redeployment.

THE FUTURE

In the year just ended, our Company showed the largest net loss from continuing operations in its history. Despite recent progress — such as inventory reduction, institution of new planning and control systems and approval of modest diversification — the Company still faces many difficult problems.

Your management is attempting to meet these problems and to achieve profitable growth. Attaining our goals will require great effort and the continued close cooperation of all our employees.

On behalf of the Board of Directors, I wish to thank all employees for their loyalty and effort. We hope that employees and shareholders alike will witness an improvement in the Company's position.

Finally, management would like to make special note of the contributions made over many years by Mr. E. Boudinot Fisher, who resigned as a Director and Chairman Emeritus, for health reasons, effective February, 1979.

Respectfully submitted,

Ralph T. McElvenny, Jr.

Ralph T. McElvenny, Jr.
Chairman and Chief Executive Officer

UNITED STATES RADIUM CORPORATION

Statements of Operations and Retained Earnings

YEARS ENDED DECEMBER 31, 1978 AND 1977

	1978	1977
Revenues:		
Net sales	$7,824,393	7,106,767
Other income (net)	23,798	13,837
Total revenues	7,848,191	7,120,604
Costs and expenses:		
Cost of sales (note 10)	7,524,647	5,885,982
Selling, administration and general expenses	965,757	1,104,774
Interest expense	138,783	218,169
Total costs and expenses	8,629,187	7,208,925
Loss from continuing operations before income taxes and extraordinary item	(780,996)	(88,321)
Income taxes (benefit) (note 8)	—	(14,050)
Loss from continuing operations before extraordinary item	(780,996)	(74,271)
Loss on disposal of discontinued business (note 2)	—	(121,910)
Loss before extraordinary item	(780,996)	(196,181)
Extraordinary item (note 3)	—	42,507
Net loss	(780,996)	(153,674)
Retained earnings at beginning of year	4,253,592	4,407,266
Retained earnings at end of year	$3,472,596	4,253,592
Earnings (loss) per share:		
Continuing operations before extraordinary item	$(.70)	(.07)
Discontinued operations	—	(.11)
Extraordinary item	—	.04
Net loss	$(.70)	(.14)

See accompanying notes to financial statements.

UNITED STATES RADIUM CORPORATION

Balance Sheets
DECEMBER 31, 1978 AND 1977

ASSETS

	1978	1977
Current assets:		
Cash (1978 includes short-term investments of $350,000 at cost)	$ 514,360	463,722
Receivables:		
Trade accounts, less allowance for doubtful accounts of $24,080 in 1978 and $21,278 in 1977	2,043,412	1,065,563
Other receivables (note 3)	91,821	294,998
Net receivables	2,135,233	1,360,561
Inventories (note 5)	2,362,919	3,394,920
Prepaid expenses	47,583	70,263
Total current assets	5,060,095	5,289,466
Property, plant and equipment at cost (notes 6 and 12)	6,551,111	6,510,444
Less accumulated depreciation and amortization	3,736,272	3,438,194
Net property, plant and equipment	2,814,839	3,072,250
Other assets	44,908	96,201
	$7,919,842	8,457,917

LIABILITIES AND STOCKHOLDERS' EQUITY

	1978	1977
Current liabilities:		
Current installments under capital leases (note 12)	$ 62,692	60,371
Accounts payable — trade	579,064	393,158
Accrued expenses (note 10a)	387,332	267,606
Income taxes	70,829	73,170
Total current liabilities	1,099,917	794,305
Long-term obligations under capital leases excluding current installments (note 12)	1,449,350	1,512,041
Stockholders' equity:		
Common stock of $1 par value per share. Authorized 1,500,000 shares; issued 1,118,698 shares, less 4,560 shares held in treasury (note 9)	1,114,138	1,114,138
Additional paid-in capital	783,841	783,841
Retained earnings	3,472,596	4,253,592
Total stockholders' equity	5,370,575	6,151,571
Contingency and commitments (notes 10 and 12)		
	$7,919,842	8,457,917

See accompanying notes to financial statements.

UNITED STATES RADIUM CORPORATION

Statements of Changes in Financial Position

YEARS ENDED DECEMBER 31, 1978 AND 1977

	1978	1977
SOURCES OF WORKING CAPITAL:		
Earnings (loss) from continuing operations	$ (780,996)	(74,271)
Items which do not use (provide) working capital:		
Depreciation and amortization:		
Property, plant and equipment	320,747	334,173
Other assets	1,903	1,903
Deferred income tax benefit	—	(27,300)
Loss on disposition and write-downs of machinery, equipment and other assets	53,134	26,361
Working capital provided (used) by continuing operations	(405,212)	260,866
Loss from discontinued operations (note 2)	—	(121,910)
Working capital provided (used) by continuing and discontinued operations	(405,212)	138,956
Extraordinary item	—	42,507
Decrease in non-current note receivable	—	730,000
Proceeds from sale of machinery and equipment	750	15,900
Other	49,390	14,573
Decrease in working capital	534,983	345,729
	$ 179,911	1,287,665
USES OF WORKING CAPITAL:		
Additions to plant and equipment	$ 117,220	168,302
Decrease in long-term lease obligations	62,691	74,363
Repayment of long-term bank debt, net of current installments	—	1,045,000
	$ 179,911	1,287,665
CHANGES IN COMPONENTS OF WORKING CAPITAL:		
Increase (decrease) in current assets:		
Cash	$ 50,638	(144,926)
Receivables	774,672	(1,025,627)
Inventories	(1,032,001)	194,858
Prepaid expenses	(22,680)	(25,556)
Net current assets of Medical Products Division	—	(329,907)
	(229,371)	(1,331,158)
Increase (decrease) in current liabilities:		
Notes payable — banks	—	(337,096)
Current installments under capital leases	2,321	820
Current installments of long-term debt	—	(285,000)
Accounts payable — trade	185,906	(33,735)
Accrued expenses	119,726	(318,775)
Income taxes	(2,341)	(11,643)
	305,612	(985,429)
Decrease in working capital	$ (534,983)	(345,729)

See accompanying notes to financial statements.

UNITED STATES RADIUM CORPORATION

Notes to Financial Statements

DECEMBER 31, 1978 AND 1977

(1) **Summary of Significant Accounting Policies**

(a) Inventories

Inventories of raw materials are priced at the lower of cost (first-in, first-out) or replacement market. Work-in-process and finished goods inventories are valued at the lower of average cost or market (replacement cost or net realizable value).

(b) Property, Plant and Equipment

For financial statement purposes, depreciation and amortization are provided on a straight-line basis, in amounts sufficient to write-off the cost of depreciable assets over their estimated useful lives. The lives used in calculating depreciation and amortization are as follows:

Buildings and building equipment	10 to 65 years
Machinery and equipment	6 to 20 years
Machinery and equipment — tools and dies	1 to 3 years
Office furniture and fixtures	8 to 12½ years
Leasehold improvements	Life of lease or asset, whichever is shorter

Expenditures for maintenance and repairs are charged to costs and expenses as incurred. Expenditures for renewals and betterments are capitalized. It is the policy of the company to relieve the asset accounts and related accumulated depreciation of assets abandoned, sold, retired or otherwise disposed of and to reflect in current operations any gains or losses realized thereon.

(c) Pension Plan

The company is currently funding all pension costs accrued, which include amortization of prior service costs over 40-year periods.

(d) Income Taxes

Deferred income taxes are recorded to reflect the effect of timing differences in computing income for financial reporting and income tax purposes. The company accounts for investment tax credits under the flow-through method.

(e) Earnings (Loss) Per Share

The computation of earnings (loss) per share is based on the average number of shares of common stock outstanding during the respective years (1,114,138 shares in each year). Shares issuable upon the exercise of stock options are excluded from the computation, since their effect would be anti-dilutive.

(f) Research and Development

Research and development expenditures, which were charged to operations as incurred, amounted to $412,903 and $323,925 in 1978 and 1977, respectively.

(2) **Sale of Medical Products Division**

Effective December 22, 1976, the company sold at a loss its Medical Products Division assets. During 1977, the company agreed to a settlement with the purchaser regarding certain claims which resulted in an additional loss of approximately $122,000.

(3) **Extraordinary Item**

In 1977, income of $42,507 resulted from an agreement which recognized prior years' charges to administrative expense as indebtedness in a final settlement of an officer's obligations to the company upon employment termination. The total amount of the settlement, including obligations relating to the year 1977, is $82,150 (including interest at 6%) and is included in Other Receivables at December 31, 1977 as an obligation of the former officer. The indebtedness was paid during 1978.

(4) **Line of Credit**

As of December 31, 1978 and 1977, the company had an unused line of bank credit of $1 million under which the company could borrow at prime rate. There are no charges for the line or for unused portions of the line.

(5) **Inventories**

The components of inventories at December 31, 1978 and 1977 are as follows:

	1978	1977
Finished goods	$ 358,832	1,079,976
Work in process	1,519,471	1,605,532
Raw material	484,616	709,412
	$2,362,919	3,394,920

(6) **Property, Plant and Equipment**

A summary of property, plant and equipment at December 31, 1978 and 1977 is as follows:

	1978	1977
Land	$ 7,381	7,381
Buildings and building equipment	2,686,249	2,680,366
Machinery and equipment	3,374,319	3,282,243
Office furniture and fixtures	151,649	150,853
Leasehold improvements	266,367	241,066
Construction in progress	65,146	148,535
	$6,551,111	6,510,444

The following is an analysis of the leased property under capital leases by major classes which are included in the above summary:

Class of Property	1978	1977
Buildings	$1,669,905	1,669,905
Machinery and equipment	189,588	226,687
	1,859,493	1,896,592
Less accumulated depreciation	401,696	342,714
	$1,457,797	1,553,878

(7) **Pension Plans**

The company has in effect several pension plans, all of which conform with the Employee Retirement Income Security Act of 1974 and cover substantially all employees. Total pension expense was $137,948 for 1978 and $120,818 for 1977. As of January 1, 1978 (the latest actuarial valuation date), the actuarially-computed value of vested benefits exceeded the pension funds' assets and balance sheet accruals by approximately $487,000.

(8) **Income Taxes**

The tax benefit differs from the amounts of "expected" tax benefit, computed by applying the applicable statutory Federal income tax rate of 48% to the loss from continuing operations before income taxes and extraordinary item, for the following reasons:

	1978	1977
Computed "expected" tax benefit	$ (374,900)	(42,400)
Investment tax credit recapture	—	2,500
Book loss carryforward for which no current tax benefit is available	374,900	42,400
Application of book loss carryforward to deferred tax credits	—	(27,300)
Provision for estimated additional tax expense	—	10,750
Income tax expense (benefit)	$ —	(14,050)

Income tax expense (benefit) is summarized as follows:

	1978	1977
Currently payable	$ —	13,250
Deferred — Federal	—	(27,300)
	$ —	(14,050)

At December 31, 1978, the company had a tax loss carryforward of approximately $900,000, of which $453,000 expires in 1984 and $447,000 expires in 1985. The company's Federal income tax returns for 1975 through 1977 are being examined by the Internal Revenue Service and the final determination has yet to be completed.

For financial statement purposes, the tax effect of the loss carryforward which arose in 1976 and 1977 had been recognized by reducing deferred tax credits by $42,500. If the tax loss carryforward is realized, such deferred credit will be reinstated at the tax rates then in effect. A cumulative deferred tax charge of $38,300 which arose in prior years was written off in 1976, because future realization was not assured. In the event the expense to which such deferred tax charge relates is applied in reducing future taxable income, the tax effect thereof will be recorded as extraordinary income at that time.

At December 31, 1978, the company has a book loss carryforward of approximately $1,032,000. For financial statement purposes, the tax benefit from such carryforward will be recorded as extraordinary income to the extent that future earnings are generated within the loss carryforward period which exceed amounts related to reinstated deferred tax credits.

(9) **Stock Options**

The company had in effect an Employees' Qualified Stock Option Plan under which 30,600 shares of common stock were reserved for issuance to officers and key employees. No options were granted or exercised in 1978 and 1977. The Plan expired February 1, 1978 and the options then outstanding to purchase 12,500 shares were cancelled.

(10) **Significant Cost of Sales Items**

(a) Health Physics Expense

Health Physics programs are required in the company's Metal Products Division for activities under licenses to the Nuclear Regulatory Commission. Such program expenses charged to operations amounted to approximately $114,000 and $20,000 in 1978 and 1977 respectively. The 1978 amount includes a provision of $75,000 for a specific correction program developed to comply with requirements; the program has not yet been reviewed and approved by the Commission, and is subject to amendments as the program progresses. Management believes that adequate provisions have been made for the estimated cost to achieve compliance with the regulatory agency's requirements.

(b) Major Write-Offs, Reserves and Underutilization Expenses

Included in 1978 cost of sales is an aggregate amount of $415,000 resulting from charges of $332,000 recorded primarily to adjust certain inventory items to net realizable values and $83,000 for cost of underutilized productive capacity.

(11) Information on Segments of Business, Exports and Major Customers

The company's business segments are described as follows:

Chemical Products. This business segment supplies specialty luminescent chemicals for television and other cathode ray tube manufacturers and for producers of x-ray intensifying screens and luminescent paints and plastics. The operations of the division are conducted at a plant in Beattystown, New Jersey.

Lighting Products. This business segment supplies instrument components in the form of lighted and unlighted instrument panels and dials primarily for aerospace and electronic applications. The operations of this division are conducted at a plant in Parsippany, New Jersey.

Metal Products. This business segment primarily supplies precision-marked dials and other components for watches, aerospace and electronic applications, and unlighted and self-luminous dials for watches, clocks and timers for consumer and automotive applications. It also supplies tritiated foils for instruments and self-luminous emergency and instruction signs for aircraft and commercial buildings. The operations of this division are conducted at a plant in Bloomsburg, Pennsylvania.

Financial data on these business segments, exports and major customers in 1978 and 1977 are as follows (in thousands):

Export sales of the company, primarily of Chemical Products, totaled $1,865, of which $1,679 were to Europe in 1978, and $1,749, of which $1,503 were to Europe in 1977.

Major customers of the company, contributing 10 percent or more of the total revenue were: Rauland Division of Zenith Radio Corporation — $1,516 in 1978 and $1,179 in 1977; Rockwell International Corporation — $857 in 1977. Rauland is a customer of Chemical Products. Sales to Rockwell International Corporation were substantially from Lighting Products and this was substantially from work on a CPFF government subcontract.

	1978	1977
Net sales and other income:		
Chemical Products	$4,078	3,798
Lighting Products	1,294	1,763
Metal Products	2,452	1,546
Other income	24	14
	$7,848	7,121
Earnings (loss) from continuing operations before income taxes (benefit) and extraordinary item:		
Chemical Products	$ (119)	515
Lighting Products	(136)	346
Metal Products	280	118
Corporate expense	(691)	(863)
Other income	24	14
Interest expense	(139)	(218)
	$ (781)	(88)
Identifiable assets:		
Chemical Products	$5,225	5,608
Lighting Products	618	758
Metal products	1,356	1,257
Corporate (principally cash, receivables and office facility)	721	835
	$7,920	8,458

	Depreciation & amortization		Capital expenditures	
	1978	1977	1978	1977
Chemical Products	$158	170	39	109
Lighting Products	45	46	16	19
Metal Products	100	98	59	38
Corporate purposes	20	22	3	2
	$323	336	117	168

(12) Commitments

The company's administrative offices and two of its three plant facilities are leased under noncancelable leases, the initial terms of which will expire at various times during the next 16 years. Management expects that, in the normal course of business, leases that expire will be renewed or replaced by other leases.

The following is a summary of capital and operating leases:

Capital Leases. The following is a schedule, by year, of future minimum lease payments under capital leases together with the present value of the net minimum lease payments as of December 31, 1978 (in thousands):

Year ending December 31:	
1979	$ 195
1980	178
1981	152
1982	152
1983	152
Later years	4,547
Total minimum lease payments	5,376
Less: Amount representing interest	3,864
Present value of net minimum lease payments (including current installments of $63)	$1,512

Operating Lease. The company has a production facility under an operating lease which provides for minimum lease payments of approximately $50,000 each year through 1984.

All leases provide that the company pay certain executory costs including taxes, maintenance, insurance and other operating costs. It is anticipated that, in the normal course of business, leases that expire will be renewed or replaced by leases on other properties.

Total rent expense charged to operations, which includes the above operating lease, amounted to $71,035 and $140,397 in 1978 and 1977 respectively.

ACCOUNTANTS' REPORT

THE BOARD OF DIRECTORS AND STOCKHOLDERS
UNITED STATES RADIUM CORPORATION:

We have examined the balance sheets of United States Radium Corporation as of December 31, 1978 and 1977 and the related statements of operations and retained earnings and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned financial statements present fairly the financial position of United States Radium Corporation at December 31, 1978 and 1977 and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Newark, New Jersey
February 12, 1979

Peat, Marwick, Mitchell & Co.

FINANCIAL REVIEW

UNITED STATES RADIUM CORPORATION

FINANCIAL REVIEW

Five Year Operations Data
(The Five Year Operations Data are not covered by the Accountants' Report)

	Years Ended December 31				
	1978	1977	1976	1975	1974
	(in thousands of dollars, except per-share amounts)				
Revenues:					
Net sales (note d)	$ 7,824	7,107	7,667	6,766	9,889
Other income	24	14	52	76	35
Total revenues	7,848	7,121	7,719	6,842	9,924
Costs and expenses:					
Cost of sales (notes a and b)	7,524	5,886	6,038	5,805	8,392
Selling, administration and general expenses (note e)	966	1,105	853	773	1,012
Interest expense	139	218	312	326	394
Unusual items (note c)	—	—	143	18	384
Total costs and expenses	8,629	7,209	7,346	6,922	10,182
Earnings (loss) from continuing operations before income taxes and extraordinary item	(781)	(88)	373	(80)	(258)
Income taxes (benefit)	—	(14)	194	(82)	(134)
Earnings (loss) from continuing operations before extraordinary item	(781)	(74)	179	2	(124)
Discontinued operations:					
Loss from discontinued operations	—	—	(109)	(135)	(63)
Loss on disposal of discontinued business	—	(122)	(870)	—	—
Loss from discontinued operations	—	(122)	(979)	(135)	(63)
Extraordinary item (note f)	—	43	—	—	—
Net loss	$ (781)	(153)	(800)	(133)	(187)
Retained earnings analysis:					
Net loss	$ (781)	(153)	(800)	(133)	(187)
Retained earnings at beginning of year	4,254	4,407	5,207	5,340	5,527
Retained earnings at end of year	$ 3,473	4,254	4,407	5,207	5,340
Paid-in capital analysis:					
Paid-in capital at beginning and end of year	$ 784	784	784	784	784
Net earnings (loss) per share (note g):					
Continuing operations, before extraordinary item	$ (.70)	(.07)	.16	—	(.11)
Discontinued operations	—	(.11)	(.88)	(.12)	(.06)
Extraordinary item	—	.04	—	—	—
	$ (.70)	(.14)	(.72)	(.12)	(.17)
Cash dividends per share	—	—	—	—	—

NOTES:

(a) Cost of sales includes the following expense amounts (in thousands):

	1978	1977	1976	1975	1974
Depreciation and amortization	$323	336	332	349	342
Research and development	$413	324	249	244	333

(b) Cost of sales. See Note (10) of Notes to Financial Statements.

(c) Unusual items are principally losses from abandonment of equipment in 1976, and from discontinuance of an unprofitable lithograph operation in 1974.

(d) Net sales exclude sale of discontinued operations of: 1976 — $3,011; 1975 — $3,318; 1974 — $3,762.

(e) Selling, administration and general expenses exclude allocation of central administrative expenses to discontinued operations of: 1976 — $254; 1975 — $310; 1974 — $274.

(f) Extraordinary item. See Note (3) of Notes to Financial Statements.

(g) Net earnings (loss) per share are based upon, 1,114,138 shares outstanding during each of the years. Shares issuable upon exercise of stock options are excluded from the computation since their effect would be anti-dilutive.

MANAGEMENT'S ANALYSIS OF OPERATIONS DATA

1978 Compared with 1977

Sales increased $717 thousand in 1978. Metal Products sales increased approximately $906 thousand, reflecting higher volume of dials for watches and precision marking of crystals for watches. A scheduled slowdown of the Rockwell Space Shuttle contract was the primary reason for the $469 thousand sales decline in Lighting Products. Chemical Products sales increased approximately $280 thousand which reflected increased demand for television phosphors.

Cost of sales increased $1,638 thousand or $921 thousand more than sales. This reflects higher production cost occurring with cutbacks in production needed to reduce inventories, and reflects inventory reserves and write-offs for Chemical Products and Lighting Products, which amounted to approximately $332 thousand. Underutilized productive capacity at Chemical Products resulted in a cost of approximately $83 thousand.

A provision of $75,000 was charged to cost of sales during 1978 for a specific correction program developed to comply with the Nuclear Regulatory Commission's regulations. This program has not yet been reviewed and approved by the Commission, and is subject to amendments as the program progresses. Management believes that adequate provisions have been made for the estimated cost to achieve compliance with the regulatory agency's requirements.

Maintenance and repairs decreased to $105 thousand in 1978 compared to $157 thousand in 1977. This decrease was substantially due to decreased equipment maintenance at Chemical Products plant and decreased facilities maintenance at Metal Products plant.

Real estate and franchise taxes decreased $28 thousand to $73 thousand due primarily to a decrease in New Jersey state sales tax expense.

Rent expense decreased to $71 thousand in 1978 compared to $140 thousand in 1977. This decrease resulted principally from cancellation of leases covering data processing equipment and replacing the company's data processing operations with a service bureau.

Research and development expense increased $89 thousand to $413 thousand. This was substantially due to increased expense in Lighting Products.

Selling, administrative and general expenses decreased $139 thousand primarily because of reduced administrative expense.

Interest expense decreased $79 thousand, primarily from a reduction of corporate bank debt. The interest expense in 1978 is substantially the imputed interest on capital leases.

As a result of the above gains and losses, there was a loss from continuing operations before taxes of $781 thousand or a $693 thousand increase in losses from 1977.

Income tax benefit on continuing operations was $14 thousand in 1977 as compared to no tax benefit for 1978. After taxes, there was a $781 thousand loss from continuing operations or a $707 thousand increase in losses after taxes from 1977.

There was a loss on disposal of discontinued business of $122 thousand in 1977 following the litigation settlement with GAF Corporation and none in 1978.

There was an extraordinary item of $43 thousand in 1977 and none in 1978.

As a result of the above gains and losses, the net loss for the company was $781 thousand in 1978 or $628 thousand higher than the prior year.

1977 Compared with 1976

Sales declined $560 thousand while cost of sales declined $152 thousand. This decline of $408 thousand in profit margin took place substantially in the Chemical Products business and is attributed to higher unit production costs caused by lowered volume and cost inflation.

The sales decline is substantially due to lowered Chemical Products sales in 1977 to the Westinghouse Electric Corporation and Videocolor SPA. The decrease in sales was partially offset by increased Lighting Products sales to Rockwell International Corporation.

Research and development expense increased $75 thousand to $324 thousand, substantially due to increased expense in Lighting Products.

Real estate and franchise taxes increased $17 thousand to $101 thousand due to an increase in state sales tax assessed by New Jersey.

Selling, administrative and general expense increased $252 thousand principally because of cost inflation, increased professional fees for legal, accounting and tax matters, and marketing expenses.

Interest expense decreased $94 thousand, primarily from a reduction of corporate bank debt.

There was an unusual items expense of $143 thousand in 1976 and none in 1977.

Other income in 1976 of $52 thousand, which included interest on tax refund, declined $38 thousand in 1977 which had no comparable interest on a refund.

As a result of the above gain and losses, there was a loss from continuing operations before income taxes of $88 thousand, or a $461 thousand reduction in earnings from 1976.

Income taxes on continuing operations were $194 thousand in 1976 as compared to a $14 thousand tax benefit in 1977. Taxes were affected by continuing operating losses in 1977. After tax, there was a $74 thousand loss from continuing operations, or a $253 thousand reduction in earnings after tax from 1976.

There was no further loss from operations of the discontinued business in 1977 compared with the $109 thousand loss shown in 1976. However, a further $122 thousand was experienced in loss on disposal of the discontinued business in 1977 following the litigation settlement with GAF Corporation in December 1977 regarding amounts owed for their purchase of the business. This amount compared with $870 thousand recorded in 1976 as loss on disposal.

There was an extraordinary item of $43 thousand in 1977 and none in 1976.

As a result of the above gains and losses, the net loss for the company was $153 thousand for 1977 or $647 thousand lower than the prior year.

1976 Compared with 1975

Sales increased 13% in 1976. This came from a $1.1 million increase in Chemical Products sales obtained primarily in the European market. Metal Products sales declined slightly, reflecting lower volume of dials for watches and precision marking of dials for electronic and other applications.

Earnings from continuing operations before income taxes increased in 1976 primarily from the increased sales volume of Chemical Products. Earnings from regular operations of Metal Products also improved, reflecting the relatively favorable 1976 impact of concluding the strike in the final quarter of 1975 at its Bloomsburg, Pennsylvania plant; however, this gain was offset by unusual items in 1976, principally a loss from abandonment of certain equipment in the watch dial manufacturing operation.

Loss from operations of discontinued business (Medical Products Division) decreased slightly in 1976, but the 1976 loss on disposal of this business totaled $870 thousand. After including effect of operations and disposal of this discontinued business, the net loss for the company increased $667 thousand in 1976.

1975 Compared with 1974

Sales decreased 32% in 1975. This came from a $1.8 million decrease in Chemical Products sales because of reduced sales to the television tube producers, due to the effects of the general economic recession. Metal Products sales declined $1.1 million, due to the lower volume of dials for watches and for automotive clocks.

FIVE-YEAR RESULTS OF CONTINUING OPERATIONS BY SEGMENTS OF BUSINESS

	1978	1977	1976	1975	1974
	(in thousands of dollars)				
Revenues:					
Chemical Products sales	$4,078	3,798	4,722	3,603	5,389
Lighting Products sales	1,294	1,763	1,218	1,088	1,283
Metal Products sales	2,452	1,546	1,727	2,075	3,217
Other income	24	14	52	76	35
	$7,848	7,121	7,719	6,842	9,924
Earnings (loss):					
Chemical products	$ (119)	515	996	455	874
Lighting Products	(136)	346	246	251	196
Metal Products					
Regular operations	280	118	186	102	124
Unusual items	—	—	(143)	(18)	(384)
Corporate expense	(691)	(863)	(652)	(620)	(709)
Other income	24	14	52	76	35
Interest expense	(139)	(218)	(312)	(326)	(394)
Income taxes	—	14	(194)	82	134
Total continuing operations	$ (781)	(74)	179	2	(124)

Market for the Common Stock of the Company

The principal market in which the common stock shares are traded is the American Stock Exchange.

The market price ranges on the American Stock Exchange for the two most recent fiscal years are:

	1978		1977	
	High	Low	High	Low
January — March	3¼	2⅝	3⅞	3¼
April — June	4	2¾	3⅝	2⅞
July — September	4⅛	3¼	4½	3¼
October — December	3⅞	2⅛	3¼	2⅜

No dividends were declared or paid during the above two-year period.